

A Non-Local Revolution

Paul Graham has recently argued for two points: first, that tech startups will [continue to collect in Silicon Valley](#). Second, that startups may represent [a new economic phase](#), replacing the [corporate ladder of old](#). Now he's suggesting that these two effects combined might lead to [a very local economic revolution](#).

The first point — that tech startups collect in Silicon Valley — is certainly true, just like car companies all tend to cluster in Detroit. This is because of a feedback effect set off by some random initial condition: Shockley Semiconductor was started in Silicon Valley, so when its employees left to start their own companies they did so there, and so on. Now everyone in the industry moves to Silicon Valley because that's where everyone else is.

This isn't a new idea; it was a central topic in Paul Krugman's research, for example, and even before that you can see similar ideas expressed by social theorists like Jane Jacobs. (For more information, see the Wikipedia article [Business cluster](#), Krugman's *Geography and Trade*, and Jacobs' brilliant book *The Economy of Cities*.) Industries tend to cluster together.

The second — that startups represent a new economic phase — may also be true. It's a rather more extreme claim, but it would be pretty cool.

But I don't think it combines with the first to create a local revolution. It's true, tech startups have generated a lot of wealth, but they're far from the only kind of startup to do so. The amazing thing about the Internet is that it makes all sorts of startups possible.

Previously, if you wanted to start a newspaper, you had to buy a building and hire a staff and get some printing presses and a delivery service and an ad sales team and access to the wire services. Now you just start a blog, read the wire services online, and link to the stories you like.

Previously, if you wanted to sell a new kind of soap, you had to build warehouses and a distribution network and a shipping infrastructure and make deals with retail outlets. Now you have [Amazon Fulfillment Services](#) handle all the physical details and just advertise your product on the Web.

And new startups are helping this process along all the time. One Y Combinator startup tries to make things easier for food producers, another helps you run an online magazine. More are surely close behind.

It's tempting to think that a soap company which only sold through the Internet would always be a small concern. But why should it be any different from Internet companies? Reddit was small when it started, but it quickly grew through word-of-mouth. Sure, we had some tough nights making things scale, but in the end we were able to ramp up to a site with millions of users.

Similarly, I met [some folks in Brooklyn who started a small salsa company](#) in their apartment. At first they made the salsa in their kitchen and sold jars through their bedroom window. As business picked up, they got a bigger space and started selling more. Now they're manufacturing in scale and you can find them at Whole Foods. This worked because New York City was a big enough audience that they had room to scale up. The Internet is big in exactly the same way.

As the Internet is everywhere and everyone knows how to use it, why won't we see online startups in every industry? And then why not all across the globe? It may make sense for tech startups to move to Silicon Valley, but does it really make sense for soap startups? For food startups? No, it seems more likely that each industry will cluster the way tech companies and car companies have.

Silicon Valley may have had the first wave, but the next one belongs to the world.

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